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PROPERTY TAXES CUT ACROSS-THE-BOARD:

Property taxes will be cut substantially next year as a result of legislation adopted during the 2002 special session. Under the new law, the state will assume financial responsibility for 60 percent of the school general fund property tax, the largest single component of property taxes.

In the chart, the left-hand column shows how property taxes for the different types of property would have changed on average if nothing had been done. The right-hand column shows the estimated changes based on the law enacted in June. As you see, all types of property will benefit from the property tax overhaul.

The reduction for business property is greater because its share of overall property taxes increases between statewide reassessments, while other types of property remain fixed.

	Before HB 1001	After HB 1001
Agriculture	+ 5.1 %	- 13.2 %
Homeowners	+ 13.5 %	- 12.8 %
Commercial	- 8.2 %	- 21.4 %
Industrial	- 12.8 %	- 26.3 %
Utility	- 37.8 %	- 28.8 %

INSIDE: NEW LAW TO BRING INVESTMENT, JOBS TO INDIANA

DAVID LONG

SUMMARY OF SPECIAL LEGISLATIVE SESSION

Property tax cuts, business tax overhaul, future spending controls earned vote for HB 1001

Substantial, meaningful and permanent relief for property taxpayers, an overhaul of business taxes to attract new jobs to Indiana, and spending controls designed to prevent future budget crises combined to earn my vote in favor of House Bill 1001 during the recently concluded legislative special session.

I continue to believe that state spending should be cut or postponed more than Gov. Frank O'Bannon has ordered to date. However, the bill's positive aspects for homeowners, farmers and business operators and long-term benefits for the lagging Indiana economy outweighed the governor's demand for additional funding to prop-up the state budget.

As you are aware, property owners were facing higher tax bills next year resulting from court-ordered changes to Indiana's property assessment method. Although property taxes are determined locally and vary considerably across the state, homeowners' property tax bills in 2003 are estimated to average 26.3 percent less, taking into account the expected increase from reassessment.

Property tax bills in 2003 for agricultural land should be reduced by an average of 18.3 percent after reassessment. Commercial and industrial property taxes also will be cut noticeably by the new law.

Creating new jobs for Hoosiers was a high priority for state lawmakers. HB 1001 calls for the outdated inventory tax to be phased-out in no more than five years (sooner if county officials so choose). The measure eliminates other business taxes, increases the state-funded tax credit for research and development, and establishes a new tax credit for venture capital investment. All of these are designed to enhance our ability to retain existing jobs and attract new jobs to Indiana.

Also included in HB 1001 is a first-ever state spending cap to help prevent a repeat of the state budget crisis. Future state spending must not increase faster than the average growth in personal income. The cap applies to all major budget categories, unlike weaker spending cap versions.

To achieve these goals, HB 1001 increased the state sales tax from 5 percent to 6 percent, raised the cigarette tax from 15.5 cents per-pack to 55.5 cents per-pack, and increased the business adjusted gross income tax modestly. In addition, Indiana's nine riverboat casinos will pay higher taxes.

Gov. O'Bannon sought $3 billion over the next three years to erase the state budget crisis. The legislation provides $1.8 billion. The balance will have to be made up through budget cuts, an increase in revenue brought about by an improving state economy or other means.

The bill was not written exactly as I would have liked, but give-and-take is part of the legislative process. Homeowners will be protected from double-digit tax increases and Indiana will become a more attractive place for businesses to create jobs. In the end, those were the best reasons for me to vote in favor of HB 1001.

Sincerely,

David Long

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SENATOR LONG'S SPECIAL SESSION UPDATE

Homeowners, farmers, business operators to see lower property taxes

Following is a complete run-down of House Bill 1001 from the 2002 special legislative session. The summary shows how the new law will affect individuals, homeowners, renters, business operators, and others.

Tax Restructuring Benefits

Individuals

Increases the Homeowners Exemption from $6,000 to $35,000 effective January 1, 2003.

Eliminates 60 percent of School General Fund Levy through state paid Property Tax Replacement Credit effective January 1, 2003 (the state will pay 60 percent of each taxpayer's property tax bill for the School General Fund).

Establishes a new 20 percent Property Tax Replacement Credit on all real and individual personal property, including mobile homes and individual personal property, effective January 1, 2003.

Increases the Homestead Credit paid by the state for homeowners to 20 percent effective January 1, 2003 (under existing law, the Credit would have gone to 4 percent beginning 2004).

Results in an average 26.3 percent statewide reduction in residential property tax rates from current law for homeowners resulting in an average 12.8 percent reduction after reassessment.

Restructure / Increase Earned Income Tax Credit (EITC) by allowing credit equal to 6 percent of federal credit beginning January 1, 2003, to help low income families offset the increase in the Sales Tax.

Increases the Renters Deduction by $500 from $2,000 to $2,500, beginning January 1, 2003, to benefit renters who will not automatically share in property tax reduction.

Businesses

Eliminates 60 percent of School General Fund Levy through state Property Tax Replacement Credit effective January 1, 2003.

Establishes a new 20 percent Property Tax Replacement Credit on all real property effective January 1, 2003.

Provides for adjustments for pay 2003 personal property taxes to offset tax increases for inventory and work in process resulting from the new business personal property reassessment rule (one-year adjustments until the "old rule" can be reestablished in CY 2004).

Exempts production in process inventory for product to be shipped out of state.

Returns to the "old" business personal property reassessment rule (with floor) for 2003 pay 2004 taxes by replacing the administration's new rule which represented a significant disincentive for new investment.

Eliminates remaining Inventory Tax in the fifth year. Gives counties the option to eliminate the Inventory Tax sooner if they pass a County Economic Development Income Tax (CEDIT) to provide Homestead Credits.

Average 18.3 percent statewide reduction in property tax rates from current law for agriculture resulting in average 13.2 percent reduction after reassessment.

Average 23.4 percent statewide reduction in property tax rates for business after reassessment.

Eliminates the Corporate Gross Income Tax and the Supplemental Net Income Tax effective January 1, 2003.

Increases the Research and Development Tax Credit from 5 percent to 10 percent and repeals apportionment formula to encourage investment in new technology and creation of high paying jobs.

Establishes a new Venture Capital Investment Tax Credit to promote the availability of "seed money" to help encourage new business start-ups.

Provides $15 million per year for the 21st Century Research and Technology Fund, which assists promising research on new methods and products leading to increased high-end employment.

Replacement revenue for tax restructuring

Establishes a new Utility Receipts Tax at 1.4 percent on regulated receipts effective January 1, 2003.

Raises the Adjusted Gross Income Tax to 8.5 percent and eliminates the Supplemental Net Income Tax effective January 1, 2003.

Increases the Sales Tax from 5 percent to 6 percent effective December 1, 2003.

Eliminates the existing 20 percent Property Tax Replacement Credit effective January 1, 2003. (The existing credit is replaced with a new 20 percent credit on real property.)

Eliminates the existing $37,500 AV Income Tax Credit effective January 1, 2003.

Increases the Cigarette Tax by 40 cents per-pack to 55.5 cents per-pack, and increases tax on other tobacco products by 3 percent effective July 1, 2002.

Increase in Riverboat Wagering Tax Rate – 22.5 percent of adjusted gross receipts for riverboats without flexible boarding effective July 1, 2002; graduated rate structure ranging from 15 percent to 35 percent for counties with flexible boarding effective when riverboat begins flexible boarding.

Taxes lottery winnings in excess of $1,200 effective January 1, 2003.

Requires withholding on out-of-state riverboat winnings greater than $1,200 effective January 1, 2003.

Caps distributions to Build Indiana Fund at $250 million per year providing additional funding for the state budget beginning July 1, 2002.

Estimated to provide $1.8 billion to support the budget over first three years.

Property tax reform

Increases the Homeowners Exemption from $6,000 to $35,000 effective January 1, 2003.

Eliminates 60 percent of School General Fund Levy through state-paid Property Tax Replacement Credit effective January 1, 2003.

Establishes a new 20 percent Property Tax Replacement Credit on all individual and business real property, including mobile homes and individual personal property.

Increases Homestead Credit to 20 percent effective January 1, 2003. Under existing law, Credit would go to 4 percent beginning in 2004.

Provides adjustments for pay 2003 personal property taxes to offset tax increases for inventory and construction in process resulting from the new business personal property reassessment rule.

Extends the existing finished goods inventory exemption to raw materials.

Returns to the "old" business personal property reassessment rule for 2003 pay 2004 (with floor).

Eliminates remaining Inventory Tax in the fifth year. Gives counties the option to eliminate the Inventory Tax sooner by adopting a local County Economic Development Income Tax to provide Homestead Credits.

Eliminates 60 percent of School General Fund Levy through state paid Property Tax Replacement Credit effective January 1, 2003.

Eliminates the Corporate Gross Income Tax effective January 1, 2003.

Increases the Research and Development Tax Credit from 5 percent to 10 percent and repeals apportionment formula to encourage investment in new technology and creation of high-paying jobs.

Establishes a new Venture Capital Investment Tax Credit to promote the availability of "seed money" to help encourage new business start-ups.

Provides $15 million per year for FY 2003 and 2004 for the 21st Century Research and Technology Fund, which assists promising research on new methods and products leading to increased high end employment.

Provides for the establishment of "SmartZones" – certified technology parks to promote high-technology research and employment, funded by capturing incremental taxes attributable to the parks.

Provides adjustments for pay 2003 personal property taxes to offset tax increases for inventory and work in process resulting from the new business personal property reassessment rule.

Exempts production in process inventory for product to be shipped out of state.

Returns to the "old" business personal property reassessment rule (with floor) for 2003 pay 2004 taxes to replaces the administration's new rule which represents a significant disincentive for new investment.

Eliminates remaining Inventory Tax in the fifth year. Gives counties the option to eliminate the Inventory Tax sooner by adopting a local County Economic Development Income Tax to provide Homestead Credits.

Protects Tax Increment Financing through an increased local levy, payment from the state or use of riverboat Revenue Sharing.

Gaming provisions

Permits riverboats to submit a plan for flexible boarding to the Indiana Gaming Commission effective July 1, 2002.

No increase in the $3 Riverboat Admissions Tax.

Increase in Riverboat Wagering Tax Rate – 22.5 percent of adjusted gross receipts for non-adopting counties effective July 1, 2002, graduated rate structure ranging from 15 percent to 35 percent for counties opting for flexible boarding effective when riverboats begin flexible boarding.

"Revenue Sharing" for counties without riverboats – Caps distributions to state and local entities at current level and creates a $33 million per year Revenue Sharing Program for local Police and Fire Pensions, Municipal Sewer and Drinking Water Projects or additional property tax reduction.

Spending Controls

Includes comprehensive State and Local Spending Controls to insure governmental spending does not increase faster than average growth in Indiana Personal Income.

Gas Tax

Three-cent gas tax increase effective January 1, 2003. Includes one-cent for INDOT / State Highway Fund, one-cent for INDOT / Bonding, which is expected to generate more than $350 million for additional highway construction, and one-cent for local government distributed under Motor Vehicle Highway Fund distribution formula.

Prepared by Senate Republican Fiscal staff

WHY WAS A SPECIAL SESSION NECESSARY TO ADDRESS THESE ISSUES?

The second session of each Indiana General Assembly is called the "short session," where legislators convene only for a short time in the spring. This year the legislature convened for regular session on January 7, and was required by law to adjourn before March 15.

In the ten short weeks of the regular "short" session, the Indiana General Assembly had to consider 963 separate bills.

This special legislative session convened on May 14, and **legislators worked on one bill for 40 days** until a proposal was approved on June 22 that best represented the concerns of all Hoosiers.

Despite much of the hype, the special session was streamlined so that it cost taxpayers very little extra to ensure a fair and balanced tax restructuring plan. In fact, **the additional cost for the 40-day special session was similar to that of 4 regular session days**, and Hoosiers benefited greatly from the added focus that was given to the new plan.

For more information, visit the General Assembly Web site at www.in.gov/legislative